

HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND
(A Development Stage Enterprise)

Financial Statements as of
December 31, 1985 and for the Year
then Ended, and Cumulative for the
Period Since Date of Inception
(September 13, 1983) and Auditors'
Opinion

AUDITORS' OPINION

Honorable Jon Lindsay, County Judge,
and Members of Commissioners Court
of Harris County, Texas:

We have examined the balance sheet of the Toll Road Enterprise Fund of Harris County, Texas as of December 31, 1985 and the related statements of operations and of changes in financial position for the year then ended and cumulative for the period since date of inception (September 13, 1983). Our examinations were made in accordance with generally accepted auditing standards and, accordingly, includes such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 1, the financial statements present only the Toll Road Enterprise Fund and are not intended to present fairly the financial position and results of operations of Harris County, Texas in conformity with generally accepted accounting principles.

In our opinion, the accompanying financial statements present fairly the financial position of the Toll Road Enterprise Fund of Harris County, Texas at December 31, 1985, and the results of its operations and the changes in its financial position for the year then ended and cumulative for the period since date of inception (September 13, 1983), in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the changes in the method of accounting for interest income on bond proceeds restricted for debt service, as described in Note 1 to the financial statements.

Deloitte Haskins + Sells

April 25, 1986

HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND
(A Development Stage Enterprise)

BALANCE SHEET, DECEMBER 31, 1985

<u>ASSETS</u>	<u>NOTES</u>	
CURRENT RESTRICTED ASSETS:	2	
Cash		\$ 725
Equity in pooled cash and investments		269,476,591
Time deposits		65,919,028
Investments		131,324,658
Accrued interest receivable		7,778,380
Total current restricted assets		<u>474,499,382</u>
RESTRICTED PLEDGED ACCOUNT FOR MULTI MODE BONDS	3	<u>543,122,356</u>
PROPERTY:	3	
Construction work in progress		92,508,279
Rights-of-way		53,330,343
Equipment		56,465
Total property		<u>145,895,087</u>
DEFERRED CHARGES		<u>12,153,703</u>
TOTAL		<u>\$1,175,670,528</u>
 <u>LIABILITIES AND FUND EQUITY (DEFICIT)</u>		
CURRENT LIABILITIES - Payable from restricted assets:		
Vouchers payable		\$ 8,254,859
Retainages payable		2,603,475
Accrued interest payable		20,848,638
Total current liabilities - payable from restricted assets		31,706,972
Bonds payable	3	1,154,193,779
Total liabilities		<u>1,185,900,751</u>
FUND EQUITY (DEFICIT):		
Contributed capital		13,704,341
Deficit accumulated during the development stage		<u>(23,934,564)</u>
Total fund equity (deficit)		<u>(10,230,223)</u>
TOTAL		<u>\$1,175,670,528</u>

See notes to financial statements.

HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND
(A Development Stage Enterprise)

STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1985 AND
CUMULATIVE FOR THE PERIOD SINCE DATE OF
INCEPTION (September 13, 1983)

	<u>NOTES</u>	<u>1985</u>	<u>CUMULATIVE</u>
ADMINISTRATIVE EXPENSES		<u>\$ 1,960,465</u>	<u>\$ 2,885,741</u>
LOSS BEFORE EXTRAORDINARY ITEM		(1,960,465)	(2,885,741)
EXTRAORDINARY ITEM - COST ASSOCIATED WITH FUTURE INTEREST SAVINGS	3	<u>(21,048,823)</u>	<u>(21,048,823)</u>
NET LOSS		(23,009,288)	(23,934,564)
DEFICIT ACCUMULATED DURING DEVELOP- MENT STAGE (AS RESTATED), BEGINNING	1	<u>(925,276)</u>	<u> </u>
DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE, ENDING		<u>\$(23,934,564)</u>	<u>\$(23,934,564)</u>

See notes to financial statements.

HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND
(A Development Stage Enterprise)

STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1985 AND
CUMULATIVE FOR THE PERIOD SINCE DATE OF
INCEPTION (September 13, 1983)

	<u>1985</u>	<u>CUMULATIVE</u>
SOURCES OF CASH AND INVESTMENTS:		
Proceeds from bond sales	\$1,090,423,779	\$1,340,423,779
Increase in accrued interest and vouchers payable	23,102,925	31,706,972
Contributed capital	13,604,341	13,704,341
Total sources of cash and investments	<u>1,127,131,045</u>	<u>1,385,835,092</u>
USES OF CASH AND INVESTMENTS:		
Operations - loss before extraordinary item	1,960,465	2,885,741
Extraordinary item - cost associated with future interest savings	21,048,823	21,048,823
Proceeds from Multi Mode Bonds deposited in restricted pledged account	543,122,356	543,122,356
Bond refunding	186,230,000	186,230,000
Additions to:		
Construction work in progress	73,046,698	92,508,279
Rights-of-way	45,215,722	53,330,343
Equipment	56,465	56,465
Increase in deferred charges	7,647,703	12,153,703
Increase in accrued interest receivable	5,071,517	7,778,380
Total uses of cash and investments	<u>883,399,749</u>	<u>919,114,090</u>
INCREASE IN CASH AND INVESTMENTS	243,731,296	466,721,002
CASH AND INVESTMENTS, BEGINNING	<u>222,989,706</u>	<u> </u>
CASH AND INVESTMENTS, ENDING	<u>\$ 466,721,002</u>	<u>\$ 466,721,002</u>

See notes to financial statements.

HARRIS COUNTY, TEXAS
TOLL ROAD ENTERPRISE FUND
(A Development Stage Enterprise)

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1985 AND
CUMULATIVE FOR THE PERIOD SINCE DATE OF
INCEPTION (September 13, 1983)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Toll Road Enterprise Fund ("Fund") was created by Harris County, Texas ("County") on September 13, 1983 to account for the acquisition, construction, improvement, operation and maintenance of the County toll road facilities and services. Construction began in 1984.

Basis of Accounting - The Fund uses the accrual basis of accounting.

Investments are U. S. government securities stated at cost, which approximates market.

Property constructed or acquired by purchase is stated at cost. Donated property is stated at estimated fair value on the date donated.

The Fund capitalizes, as a cost of its constructed property, the interest expense of bonds issued for construction purposes less the interest earned on the temporary investment of the proceeds of those bonds from the date of the borrowing until the date the property is ready for use. Such capitalization increased the cost of assets constructed by the Fund by approximately \$2,700,000 and \$1,200,000 in 1985 and cumulative for the period since date of inception, respectively.

The deficit accumulated during the development stage and construction work in progress accounts were restated as of January 1, 1985 to adjust for the effect of capitalizing interest income on construction bond proceeds restricted for debt service. The amount of such interest previously recognized as income in 1984 and 1983 totaled \$2,319,966.

No depreciation has been provided for on property since all property is still under construction.

Deferred Charges consist of bond issuance costs that are amortized on a straight-line basis over the remaining term of the bonds.

Bond Premiums are amortized on a straight-line basis over the remaining term of the bonds.

Vacation Pay and Sick Leave - Employees are paid by a prescribed formula for absence due to vacation or sickness. The eligibility for each benefit lapses at year-end; accordingly, the Fund had no liability for vacation pay or sick leave benefits at December 31, 1985.

2. RESTRICTED ASSETS

The bond restrictions require that, during the period in which the bonds are outstanding, the Fund must create and maintain certain accounts to receive the proceeds from the sale of the bonds, the property taxes levied (if any), and the gross revenues derived from the operation of the toll roads. These assets can be used only in accordance with the terms of the bond resolutions: to pay the capital costs of constructing a system of toll roads, or to pay the debt service for the related bonds.

3. BONDS PAYABLE

Bonds payable consist of the following:

Unlimited tax and subordinate lien variable-rate demand revenue bonds, Series 1983, interest at 1/8 of 1% above TENR* payable quarterly, adjustable and subject to a maximum; optional redemption allowable, mandatory redemption 2005-2008, matures 2009	\$ 50,000,000
Unlimited tax and subordinate lien revenue bonds:	
Series 1984 (a portion refunded in 1985)	13,770,000
Series 1985	100,000,000
Unlimited tax and subordinated lien revenue adjustable/fixed rate bonds, Series 1985 A-E, interest at 1/8 of 1% above TENR* payable quarterly, adjustable and subject to a maximum; optional redemption allowable, mandatory redemption 1994-2014, matures 2015	250,000,000
Unlimited tax and subordinate lien revenue refunding bonds, Series 1985-F	186,230,000
Multiple mode senior lien revenue bonds, Series A-G, interest at 6.3%-7.2% payable semiannually; initial mandatory purchase dates 1987-1990	547,500,000
Total principal	<u>1,147,500,000</u>
Premium on Series 1985-F bonds	<u>6,693,779</u>
Total	<u>\$1,154,193,779</u>

* An interest rate determined weekly by Bankers Trust Company and based upon current yields on short-term tax-exempt obligations.

The Series 1983 bonds are subject to purchase on demand of the holders at a price equal to principal plus accrued interest. In 1985 the County placed \$50,000,000 of the proceeds from the sale of the Series 1985 A-E bonds together with other available funds in an irrevocable escrow with a trustee to provide for all debt service on the Series 1983 bonds. This transaction was not recognized as a refunding for financial accounting purposes because the bonds are variable-rate bonds whose future debt service is not determinable.

Terms of the Series 1984, 1985, and 1985-F bonds are as follows:

	<u>Series 1984</u>	<u>Series 1985</u>	<u>Series 1985-F</u>
Compound interest bonds	\$13,770,000	\$ 14,305,000	\$ 9,370,000
Current interest rate bonds	<u> </u>	<u>85,695,000</u>	<u>176,860,000</u>
Balance, December 31, 1985	<u>\$13,770,000</u>	<u>\$100,000,000</u>	<u>\$186,230,000</u>
Compound interest bonds, interest payable upon maturity:			
Interest rates	9.25%-10.25%	8.75% - 10%	8% - 9.2%
Maturity dates	1994-2000	1994-2004	1992-2003
Current interest rate bonds, interest payable semiannually:			
Interest rates		9.625%-9.875%	7.25%-9.25%
Maturity dates		2005-2015	1991-2014
Early redemption begins		1995 or interest dates thereafter	1995 or interest dates thereafter

The Series 1985 A-E bonds initially bear interest at TENR plus 1/8 of 1%. At the option of the County, this initial rate on any series of bonds may be converted to a rate of interest determined daily or for terms of one year, three years or until maturity.

The bonds are subject to purchase on the demand of the holder, at anytime prior to the conversion from TENR described above, at a price equal to principal plus accrued interest. The County's remarketing agent is authorized to use its best efforts to sell the bonds at a price equal to par. If the remarketing agent has not remarketed such bonds by the seventh day, the remarketing agent has the option of selling the bonds to a bank with which the County has a standby agreement to purchase such bonds.

The County is required to pay the remarketing agent an annual fee of .11% per annum of the outstanding principal amount of the bonds. The County paid an initial standby agreement fee of \$156,000 to the standby bank during 1985, and is required to pay an additional .15% per annum of the outstanding principal amount of the bonds.

The proceeds of the Multiple Mode Bonds, Series A-G ("Multi Mode Bonds") were deposited in the Pledged Account at the trustee and invested in U.S. government securities or retained as cash. The Pledged Account will be sufficient to pay the purchase price of and interest on Multi Mode Bonds in the initial mode as they become due. The Multi Mode Bonds are secured by and payable from the Pledged Account while in the initial mode and at all times are further secured by a pledge of and lien on any and all property of every kind and nature which may be assigned or pledged or deposited with the trustee.

On the initial mandatory purchase dates (beginning February 15, 1987 and each six-month interval until February 15, 1990) the Multi Mode Bonds will be purchased from the owners and will be automatically converted to the fixed mode, they will mature from 1996 to 2017. The Multi Mode Bonds in the initial mode are subject to optional redemption by the County on August 15, 1988, or such date and on any interest payment date thereafter, prior to the initial mandatory purchase date. The Multi Mode Bonds are subject to mandatory redemption at the option of the County as a premium of 1/4 of 1% for each six-month period from such date until the scheduled initial mandatory purchase date.

Refunding - In 1985 the County refunded \$186,230,000 current interest bonds included in the Series 1984 bonds to reduce the future debt service for this amount of principal.

For financial accounting purposes, the difference in future interest cost is not included in the calculation of the result of the transaction, which is as follows:

Principal balance of refunded bonds	\$186,230,000	
Unamortized bond issuance costs	<u>(4,356,245)</u>	\$ 181,873,755
Less payment to trustee:		
Proceeds from refunding bonds:		
Principal	186,230,000	
Premium	6,924,599	
Net debt service funds	<u>9,767,979</u>	<u>(202,922,578)</u>
Extraordinary item - cost associated with future interest savings		<u>\$ (21,048,823)</u>
Present value of total debt service savings, after deduction of extraordinary item		<u>\$ 5,500,000</u>

Proceeds from the sale of the refunding bonds, together with other available funds, were placed in an irrevocable escrow with a trustee to provide for all debt service of the refunded bonds. Neither the assets held by the trustee nor the liability for the refunded bonds are reflected in the financial statements.

Debt Service Requirements - The payment of the principal and interest on the toll road bonds, excluding the Multi Mode Bonds, is secured by a continuing direct annual ad valorem tax, without limit as to rate or amount, on all taxable property in the County. As of December 31, 1985, the levy for such tax has been for zero amount since no tax revenues has been required for debt service. In addition, the debt service is secured by the gross revenues of the toll road system. The County expects to pay such debt service out of such gross revenues when the toll road system becomes fully operational. Until that time, the County expects to pay most of such debt service out of a portion of the bond proceeds and interest revenues thereon.

The following debt service requirements schedule includes the mandatory redemptions for Series 1983 (assuming the most recent interest rate of 8-5/8%), Series 1984, Series 1985, Series 1985 A-E (assuming the most recent interest rate of 8-5/8%), Series 1985F, and the requirements for the Multi Mode Bonds through the initial mandatory purchase dates:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1986		\$ 78,341,278	\$ 78,341,278
1987	\$ 183,100,000	84,981,356	268,081,356
1988	175,755,000	72,940,363	248,695,363
1989	126,150,000	61,647,159	187,797,159
1990	62,495,000	52,764,452	115,259,452
1991-1995	26,161,468	272,745,211	298,906,679
1996-2000	51,930,323	294,418,838	346,349,161
2001-2005	92,243,209	260,245,920	352,489,129
2006-2010	205,495,000	158,643,894	364,138,894
2011-2015	224,170,000	60,465,656	284,635,656
Total	<u>\$1,147,500,000</u>	<u>\$1,397,194,127</u>	<u>\$2,544,694,127</u>

Unissued Authorized Bonds - At December 31, 1985, the County has voter authorization to issue additional unlimited tax bonds in the amount of \$300,000,000.

4. RETIREMENT PLANS

All of the employees of the County are members of the Texas County and District Retirement System ("System"), a money-purchase, defined contribution pension plan. Under such plan, the members

and the County each contribute an amount equal to 7% of the members' earnings. Total contributions to the System by the Fund in 1985 and cumulative for the period since date of inception were \$45,772 and \$74,721, respectively.

In addition to providing pension benefits, the County provides certain health care and life insurance benefits for retired employees. Substantially all of the County's employees may become eligible for those benefits if they reach normal retirement age while working for the County. The cost of retiree health care and life insurance benefits is recognized when paid. Those costs were not material for 1985 and cumulative for the period since date of inception.

5. COMMITMENTS

At December 31, 1985, the Fund had committed about \$180,000,000 for the construction of the County toll road facilities.
